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MILITARY PERSONNEL

Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops

Statement of Derek B. Stewart, Director, Defense
Capabilities and Management





Highlights of [GAO-04-582T](#), a testimony before the Subcommittee on Total Force, Committee on Armed Services, House of Representatives

Why GAO Did This Study

Since the terrorist attacks of September 11, 2001, the U.S. military has deployed high numbers of active duty and reserve troops to fight the global war on terrorism and for Operation Iraqi Freedom. Ensuring that U.S. military forces are adequately compensated and that the morale of deployed troops remains high have been priorities for the Congress and the Department of Defense (DOD).

In response to congressional mandates, GAO has reviewed a number of issues concerning military personnel. For this hearing, GAO was asked to provide the results of its work on military compensation for National Guard and Reserve personnel and on the Selective Reenlistment Bonus (SRB) program, a tool DOD can use to enhance retention of military personnel in critical occupational specialties. In addition, GAO was asked to provide its preliminary views, based on ongoing work, concerning mail delivery to troops stationed in the Middle East.

www.gao.gov/cgi-bin/getrpt?GAO-04-582T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Derek B. Stewart at (202) 512-5559 or stewartd@gao.gov.

MILITARY PERSONNEL

Observations Related to Reserve Compensation, Selective Reenlistment Bonuses, and Mail Delivery to Deployed Troops

What GAO Found

Reservists who are called to active duty to support a contingency operation are eligible to receive the same pay and benefits as members of the active component. Moreover, in constant dollars, basic military compensation has increased in recent years. For instance, an enlisted reservist in pay grade E-4 who is married with no other dependents and who is called to active duty experienced a 19 percent increase in basic military compensation between fiscal years 1999 and 2003. Despite these increases, income loss is a concern to many reservists, although DOD has lacked timely, sufficient information to assess the full scope and nature of this problem. Benefits for reserve personnel have also improved, notably in the area of health care. As GAO has previously reported, given the federal government's growing deficits, it is critical that the Congress give adequate consideration to the longer term costs and implications of legislative proposals to further enhance military pay and benefits before they are enacted into law. For example, proposals to enhance reserve retirement should be considered in this context.

Although GAO has not specifically reviewed the use of SRBs to enhance reserve retention, GAO has noted shortcomings in DOD's management and oversight of the SRB program for active duty personnel. GAO's observations of this program may be helpful in making decisions for the use of SRBs for reservists. Concerned about missing their overall retention goals in the late 1990s, all the services expanded their use of SRBs to help retain more active duty enlisted personnel in a broader range of military specialties, even though the program was intended to help the services meet retention problems in selected critical specialties. As a result, the cost of the program more than doubled in just 5 years—from \$308 million in fiscal year 1997 to \$791 million in fiscal year 2002. However, the effectiveness and efficiency of SRBs in targeting bonuses to improve retention in selected critical occupations is unknown. DOD has not conducted a rigorous review of the SRB program. DOD concurred with GAO's recommendations to institute more effective controls to assess the progress of the SRB program, but has not taken action as yet.

Mail can be a morale booster for troops fighting overseas and for their families at home. GAO has been reviewing mail delivery to deployed troops and expects to issue a report soon. GAO's preliminary findings show that mail delivery continues to be hampered by many of the same problems encountered during the first Gulf War. First, DOD does not have a reliable accurate system in place to measure timeliness. Second, despite differences in operational theaters and efforts by DOD postal planners to incorporate lessons learned into planning for Operation Iraqi Freedom, postal operations faced many of the same problems, such as inadequate postal facilities, equipment, and transportation. Third, DOD has not officially tasked any entity to resolve the long-standing postal problems experienced during contingency operations. GAO plans to make several recommendations to improve DOD's mail delivery to deployed troops.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our work on military compensation for National Guard and Reserve personnel¹ and on the Selective Reenlistment Bonus (SRB) program, as well as our preliminary observations concerning mail delivery to troops stationed in the Middle East. Since the terrorist attacks of September 11, 2001, the U.S. military has deployed high numbers of active duty and reserve troops to fight the global war on terrorism and for Operation Iraqi Freedom. Ensuring that U.S. military forces are adequately compensated and that the morale of deployed troops remains high have been priorities for the Congress and the Department of Defense (DOD).

Summary

Our work on reserve compensation has shown that reservists who are called to active duty to support a contingency operation are eligible to receive the same pay and benefits as members of the active component. Moreover, in constant dollars, basic military compensation—which includes basic pay, allowances for housing and meals, and the federal tax advantage²—has increased in recent years. As a result, reservists activated today are earning more in the military than they did just a few years ago. Other pay policies and protections, such as the Servicemembers Civil Relief Act, may help to mitigate reservists' financial hardship during deployment. Income loss is a concern to many reservists, although DOD has lacked timely, sufficient information to assess the full scope and nature of this problem. Benefits for reserve personnel have also improved, notably in the area of health care where the Congress has improved benefits not only for reservists but for their families as well. As we have previously reported, given the federal government's growing deficits, it is critical that the Congress give adequate consideration to the longer term costs and implications of legislative proposals to further enhance military pay and benefits before they are enacted into law. For example, proposals to enhance reserve retirement should be considered in this context. We

¹ We use the generic term "reserves" and "reservists" throughout this statement to refer to both National Guard and Reserve personnel.

² The federal tax advantage is included in basic military compensation to account for the tax-free status of housing and subsistence allowances. The federal tax advantage is the added amount of taxable income that servicemembers would have to receive in cash if housing and subsistence allowances were to become taxable in order for them to be as well off in after-tax income as they are under the existing system.

have ongoing work looking at proposals to change the reserve retirement system.

The SRB program is one tool DOD can use to enhance retention of both active duty and reserve personnel. Although we have not specifically reviewed the use of reenlistment bonuses to enhance reserve retention, we have noted shortcomings in DOD's management and oversight of the SRB program for active duty personnel. Our observations of this program may be helpful in making decisions for the use of SRBs for reservists. For example, concerned about missing their overall retention goals in the late 1990s, all the services expanded their use of SRBs to help retain more active duty enlisted personnel in a broader range of military specialties, even though the program was intended to help the services meet retention problems in selective critical specialties. The Air Force in fiscal year 2001 awarded bonuses to approximately 80 percent of its specialties, which were paid to 42 percent of its reenlistees. As a result of the services' expanded use of SRBs for active duty personnel, the cost of the program more than doubled in just 5 years—from \$308 million in fiscal year 1997 to \$791 million in fiscal year 2002. The SRB budget was expected to rise to over \$800 million in fiscal year 2005. Despite increased use of the SRB program, DOD has cited continued retention problems in specialized occupations. However, the effectiveness and efficiency of SRBs in targeting bonuses to improve retention in selective critical occupations is unknown. DOD has not conducted a rigorous review of the SRB program.

Mail can be a morale booster for troops fighting overseas and for their families at home. More than 65 million pounds of letters and parcels were delivered to troops serving in theater during 2003. Between February and November 2003, the Congress and the White House forwarded more than 300 inquiries about mail delivery problems to military postal officials. We have been reviewing mail delivery and expect to issue a report soon. Our preliminary findings show that mail delivery continues to be hampered by many of the same problems encountered during the first Gulf War. First, DOD does not have a reliable accurate system in place to measure timeliness. Second, despite differences in operational theaters and efforts by DOD postal planners to incorporate lessons learned into planning for Operation Iraqi Freedom, postal operations faced many of the same problems: difficulty conducting joint mail operations; postal personnel inadequately trained and initially scarce in number due to late deployments; and inadequate postal facilities, equipment, and transportation. Third, DOD has not officially tasked any entity to resolve the long-standing postal problems experienced during contingency operations.

Now let me turn to each of these issues in more detail.

Reserve Compensation

One of DOD's guiding principles for military compensation is that servicemembers, in both the reserve and active components, be treated fairly.³ Military compensation for reservists is affected by the type of military duty performed. In peacetime—when a reservist is training or performing military duty not related to a contingency operation—certain thresholds are imposed at particular points in service before a reservist is eligible to receive the same compensation as a member of the active component. For example, a reservist is not entitled to a housing allowance when on inactive duty training (weekend drills). If a reservist is on active duty orders that specify a period of 140 days or more, then he or she becomes entitled to the full basic housing allowance. For contingency operations,⁴ these thresholds do not apply.⁵ Thus, reservists activated for Operation Iraqi Freedom and other contingencies are eligible to receive the same compensation as active component personnel.

Basic military compensation,⁶ in constant dollars, remained fairly steady during the 1990s but has increased in recent years. As a result, reservists—enlisted personnel and officers—activated today are earning more in the military than they did just a few years ago, as shown in figure 1. For example, an enlisted member in pay grade E-4 who is married with no other dependents (family size 2) earned \$3,156 per month in basic military compensation in fiscal year 2003, compared with \$2,656 per month in fiscal year 1999, or a 19 percent increase. These figures are calculated in constant 2003 dollars to account for the effects of inflation.

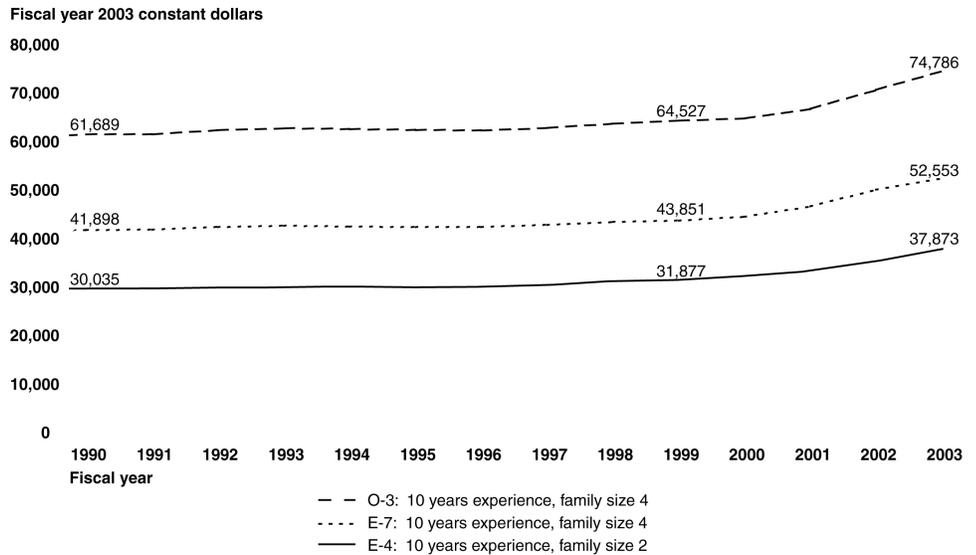
³ Department of Defense, Office of the Secretary of Defense, *Military Compensation Background Papers: Compensation Elements and Related Manpower Cost Items, Their Purposes and Legislative Backgrounds* (Sept. 1996).

⁴ A military operation may be designated by the Secretary of Defense as a contingency operation or become a contingency operation as a matter of law.

⁵ Reservists who are placed on active duty orders for 31 days or more are automatically enrolled in TRICARE Prime. Family members of reservists who are activated for 31 days or more may obtain coverage under TRICARE.

⁶ Basic military compensation consists of basic pay, basic allowance for housing, basic allowance for subsistence, and the federal tax advantage. It does not include special and incentive pays, other allowances, and the value of fringe benefits, such as health care and retirement.

Figure 1: Annual Basic Military Compensation for Selected Pay Grades for Fiscal Years 1990-2003



Source: DOD.

Note: GAO analysis.

In addition to increases in basic military compensation, other pay policies and protections may help to mitigate reservists' financial hardship during deployment. For example:

- By statute, debt interest rates are capped at 6 percent annually for debts incurred prior to activation.⁷ The Servicemembers Civil Relief Act, passed in December 2003,⁸ enhanced certain other protections. For example, the act prohibits a landlord, except by court order, from evicting a servicemember or the dependents of a servicemember, during a period of military service of the servicemember, from a residence for which the monthly rent does not exceed \$2,400. The act increased the monthly rental limit from \$1,200 and required the rental limit to be adjusted annually based on changes to a national housing consumer price index.

⁷ 50 U.S.C. App. sec. 527.

⁸ Public Law 108-189 (Dec. 19, 2003).

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- Some or all of the income that servicemembers earn while serving in combat zones is tax-free.⁹
 - For certain contingencies, including Operation Iraqi Freedom, DOD authorizes reservists to receive both a housing allowance and per diem for their entire period of activation, up to 2 years.
 - Emergency loans are available through the Small Business Administration to help small businesses meet necessary operating expenses and debt payments.

An issue of concern that is closely tied with military compensation is income loss experienced by many reservists activated for a military operation. In a recent report, we evaluated information on income change.¹⁰ We found that DOD lacked sufficient information on the magnitude, the causes, and the effects of income change to determine the need for compensation programs targeting reservists who meet three criteria: (1) fill critical wartime specialties, (2) experience high degrees of income loss when on extended periods of active duty, and (3) demonstrate that income loss is a significant factor in their retention decisions. Such data are critical for assessing the full nature and scope of income change problems and in developing cost-effective solutions. DOD data on income change has been derived from self-reported survey data collected from reservists and their spouses. A 2000 DOD survey of reservists showed that of those who served in military operations from 1991 to 2000, an estimated 59 percent of drilling unit members had no change or gain in family income when they were mobilized or deployed for a military operation, and about 41 percent lost income. This survey was conducted before the mobilizations occurring after September 11, 2001. A 2002 DOD survey of spouses of activated reservists showed that an estimated 70 percent of families experienced a gain or no change in monthly income and 30 percent experienced a decrease in monthly income. The survey data are

⁹ Department of the Treasury, Internal Revenue Service, *Armed Forces' Tax Guide: For Use in Preparing 2003 Returns*, Publication 3, Cat. No. 46072M. This publication noted that all military pay for the month is excluded from income when an enlisted servicemember, warrant officer, or commissioned warrant officer served in a combat zone during any part of a month or while hospitalized as a result of service in the combat zone. The amount of the exclusion for a commissioned officer (other than a commissioned warrant officer) is limited to the highest rate of enlisted pay, plus imminent danger/hostile fire pay, for each month during any part of which an officer served in a combat zone or while hospitalized as a result of service there.

¹⁰ U.S. General Accounting Office, *Military Personnel: DOD Needs More Data to Address Financial and Health Care Issues Affecting Reservists*, [GAO-03-1004](#) (Washington, D.C.: Sept. 10, 2003).

questionable primarily because it is unclear what survey respondents considered as income loss or gain in determining their financial status. We recommended that DOD take steps to obtain more complete information in order to take a targeted approach to addressing income change problems. DOD concurred with this recommendation. In May and September of 2003, DOD implemented two web-based surveys of reservists to collect data on mobilization issues, such as income change. DOD has tabulated the survey results and expects to issue a report with its analysis of the results by July 2004. These surveys should be insightful for this issue.

Benefits are another important component of military compensation for reservists and help to alleviate some of the hardships of military life. DOD offers a wide range of benefits, including such core benefits as health care, paid time off, life insurance, and retirement.¹¹ Notable improvements have been made to the health care benefits for reservists and their families. For example, under authorities granted to DOD in the National Defense Authorization Acts for fiscal years 2000 and 2001, DOD instituted several health care demonstration programs to provide financial assistance to reservists and family members. For example, DOD instituted the TRICARE Reserve Component Family Member Demonstration Project for family members of reservists mobilized for Operations Noble Eagle and Enduring Freedom to reduce TRICARE costs and assist dependents of reservists in maintaining relationships with their current health care providers. The demonstration project eliminates the TRICARE deductible and the requirement that dependents obtain statements saying that inpatient care is not available at a military treatment facility before they can obtain nonemergency treatment from a civilian hospital. Legislation passed in December 2002 made family members of reservists activated for more than 30 days eligible for TRICARE Prime¹² if they reside more than 50 miles, or an hour's driving time, from a military treatment facility. Last year, the Congress passed legislation for a 1-year program to extend

¹¹ U.S. General Accounting Office, *Military Personnel: Active Duty Benefits Reflect Changing Demographics, but Opportunities Exist to Improve*, [GAO-02-935](#) (Washington, D.C.: Sept. 18, 2002).

¹² Public Law 107-314, sec. 702. TRICARE Prime, one of the options under DOD's managed health care program, is similar to a private HMO plan and does not require enrollment fees or copayments.

TRICARE to reservists who are unemployed or whose employer does not offer health care benefits.¹³

As we have previously reported, given the federal government's growing deficits, it is critical that the Congress give adequate consideration to the longer term costs and implications of legislative proposals to further enhance military pay and benefits before they are enacted into law. For example, proposals to enhance reserve retirement should be considered in this context. We have ongoing work looking at proposals to change the reserve retirement system. The key questions we are addressing include:

- What are the objectives of the reserve retirement system?
- Is DOD meeting its reserve retirement objectives?
- What changes to the current reserve retirement system that DOD and others have proposed could help DOD better meet its objectives?
- What factors should DOD consider before making changes to its reserve retirement system?

We anticipate issuing a report addressing these questions in September 2004.

Selective Reenlistment Bonus Program

While we have not specifically reviewed the use of reenlistment bonuses for reservists, our work has shown that DOD could improve the management and oversight of the SRB program with more methodologically rigorous evaluations. The SRB program is intended to help the services retain enlisted personnel in critical occupational specialties, such as linguists and information technology specialists. Concerned about missing their overall retention goals in the late 1990s, all the services expanded their use of SRBs to help retain more active duty enlisted personnel. There were increases in the number of specialties that the services made eligible for the bonuses and in the number of bonus recipients. The Air Force, for example, awarded bonuses to 158 specialties (80 percent of total specialties) in fiscal year 2001, up from 68 specialties (35 percent of total specialties) in fiscal year 1997. During this time period, the number of active duty Air Force reenlistees receiving bonuses increased from 3,612 (8 percent of total reenlistees) to 17,336 (42 percent of total reenlistees). As a result of the services' expanded use of SRBs for active duty personnel, the cost of the program

¹³ Public Law 108-106, sec. 1115.

more than doubled—from \$308 million in fiscal year 1997 to \$791 million in fiscal year 2002.¹⁴ The SRB budget was expected to rise to over \$800 million in fiscal year 2005. About 44 percent of the SRB budget growth over the 1997 to 2005 period is attributable to increases in the Air Force SRB budget. Despite increased use of the SRB program, DOD has cited continued retention problems in specialized occupations such as air traffic controller, linguist, and information technology specialist.

In November 2003,¹⁵ we reviewed a congressionally directed DOD report to the Congress on the program and found that DOD had not thoroughly addressed four of the five concerns raised by the Congress. As a result, the Congress did not have sufficient information to determine if the program was being managed effectively and efficiently. More specifically,

- DOD did not directly address the SRB program’s effectiveness or efficiency in correcting shortfalls in critical occupations.
- DOD had not issued replacement program guidance for ensuring that the program targets only critical specialties that impact readiness. DOD did not address an important change—the potential elimination of the requirement for conducting annual reviews. We were told that the new guidance will require periodic reviews, but neither the frequency nor the details of how these reviews would be conducted was explained.
- DOD did not describe the steps it would take to match program execution with appropriated funding. Our analysis showed that in fiscal years 1999-2002, the services spent a combined total of \$259 million more than the Congress appropriated for the SRB program.
- DOD provided only a limited assessment of how each service administers its SRB program.
- DOD identified the most salient advantages and disadvantages that could result from implementing a lump sum payment option for paying retention bonuses, and we generally concurred with DOD’s observations.

On the basis of our work, we recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to (1) retain the requirement for an annual review of the SRB program and (2) develop a consistent set of methodologically sound procedures and metrics for reviewing the effectiveness and efficiency of all aspects of

¹⁴ These budget figures are expressed in constant fiscal year 2004 dollars.

¹⁵ U.S. General Accounting Office, *Military Personnel: DOD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program*, [GAO-04-86](#) (Washington, D.C.: Nov. 13, 2003).

each service's SRB program administration. DOD concurred with the recommendations but has not yet taken actions to address them.

Mail Delivery

Mail can be a morale booster for troops fighting overseas and for their families at home. During Operation Iraqi Freedom, problems with prompt and reliable mail delivery surfaced early in the conflict and continued throughout. More than 65 million pounds of letters and parcels were delivered to troops serving in theater during 2003. Between February and November 2003, the Congress and the White House forwarded more than 300 inquiries about mail delivery problems to military postal officials. We are reviewing mail delivery to troops stationed overseas and plan to issue our report next month. In the report, we will assess (1) the timeliness of mail delivery to troops stationed in the Gulf Region, (2) how mail delivery issues and problems experienced during Operation Iraqi Freedom compare to those during Operations Desert Shield/Storm, and (3) efforts to identify actions to resolve problems for future contingencies.

Although our report is not yet final, the preliminary results of our review are as follows:

Timeliness

The timeliness of the mail delivery to troops serving in Operation Iraqi Freedom cannot be accurately determined because DOD does not have a reliable, accurate system in place to measure timeliness. Transit time data reported by the Transit Time Information Standard System for Military Mail shows that average transit times for letters and parcels into the theater consistently fell within the 11 to 14-day range—well within the current wartime standard of 12 to 18 days. However, we determined that the method used to calculate these averages masks the actual times by using weighted averages that result in a significant understating of transit times.¹⁶ A second source of data—test letters that were sent to individual

¹⁶ In DOD's sampling methodology, random samples are selected from all incoming letters and packages arriving at a military post office in the Iraqi theater. The samples are then divided into three categories: postmark less than 10 days old, postmark between 11 and 15 days old, and postmark over 16 days old. Each of these three categories is given a weight value of 10, 15, and 16, respectively, which represent the break points of each category. The sample size in each category is then multiplied by the weight value and averaged to get the reported transit time. Consequently, regardless of the sample size or the actual number of days the items spent in transit, the resulting average will always be between 10 and 16 days.

servicemembers at military post offices by the Military Postal Service Agency between February and September 2003—indicate that mail delivery, on average, met the wartime standard during all but 1 month. However, we found that a significant number of test letters were never returned, and that test letters do not accurately measure transit time to the individual servicemember because they are sent only to individuals located at military post offices. It could take several more days for mail to get to forward-deployed troops. Even though the data shows otherwise, military postal officials acknowledge that mail delivery to troops serving in Operation Iraqi Freedom was not timely.

Comparison With Operations Desert Shield/Storm

Despite differences in operational theaters and an effort by postal planners to incorporate Operations Desert Shield/Storm experiences into the planning for Operation Iraqi Freedom, many of the same problems were encountered. These problems include (1) difficulty in conducting joint-service mail operations; (2) postal personnel inadequately trained and initially scarce in number due to late deployments; and (3) inadequate postal facilities, material handling equipment, and transportation assets to handle the initial mail surge. U.S. Central Command—the combatant command for Operation Iraqi Freedom—created an operations plan for joint mail delivery, but some of the planning assumptions were flawed and the plan was not fully implemented. This plan included certain assumptions that were key to its success, but some assumptions produced unforeseen negative consequences and others were not implemented or unrealistic. For example, the elimination of mail addressed to “Any Service Member” increased the number of parcels because senders found ways around the restriction. In addition, plans to restrict the size and weight of letters and parcels until adequate postal facilities had been established were never enacted; and the volume of mail was grossly underestimated. The plan also directed that a Joint Postal Center comprised of postal officials from all services manage and coordinate joint postal operations in theater. However, this effort was never fully implemented, and joint mail delivery suffered as a result. The Military Postal Service Agency did implement one strategy that proved to be successful as a result of lessons learned from Operations Desert Shield/Storm. Dedicated contractor airlift of mail into the contingency area was employed, avoiding the necessity of competing for military air cargo capacity, which greatly improved the regularity of mail service to the theater.

Efforts to Resolve Postal Problems

No single entity has been officially tasked to resolve the long-standing postal problems seen again during Operation Iraqi Freedom. Military postal officials have begun to identify solutions to some of these issues. However, despite early efforts made by the Military Postal Service Agency to consolidate problems and identify solutions, this agency does not have the authority to ensure that these problems are jointly addressed and resolved before the next military contingency. During our meetings with dozens of key military postal officials serving during Operation Iraqi Freedom, we collected memoranda, after action reports, and their comments regarding the postal issues and problems that should be addressed to avoid a repetition of the same postal problems in future contingencies. These issues include: improving joint postal planning and ensuring joint execution of that plan; early deployment of postal troops; preparing updated tables of organization and equipment for postal units; improving peacetime training for postal units; and reviewing the command and control of postal units in a joint theater. The Military Postal Service Agency hosted a joint postal conference in October 2003 to discuss postal problems with dozens of key postal participants in Operation Iraqi Freedom and is currently in the process of consolidating these issues into a single document with the intent of developing plans to resolve the issues. In addition, the service components and the Military Postal Service Agency have taken some initial steps in employing alternative mail delivery and tracking systems.

In our report, we plan to make several recommendations aimed at (1) establishing a system that will accurately track, calculate, and report postal transit times and (2) designating responsibility and providing sufficient authority within the Department to address and fix long-standing postal problems identified in this report.

Mr. Chairman, this completes our prepared statement. We would be happy to respond to any questions you or other members of the Subcommittee may have at this time.

Contacts and Acknowledgments

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